

(ii) Anticipated tax liabilities, expected future distributions, and anticipated tax savings are determined under the rules in § 1.860E-2(a)(3) and without regard to the operation of section 475.

(iii) Present values are determined under the rules in § 1.860E-2(a)(4).

[T.D. 8700, 61 FR 67725, Dec. 24, 1996]

#### § 1.475(d)-1 Character of gain or loss.

(a) *Securities never held in connection with the taxpayer's activities as a dealer in securities.* If a security is never held in connection with the taxpayer's activities as a dealer in securities, section 475(d)(3)(A) does not affect the character of gain or loss from the security, even if the taxpayer fails to identify the security under section 475(b)(2).

(b) *Ordinary treatment for notional principal contracts and derivatives held by dealers in notional principal contracts and derivatives.* Section 475(d)(3)(B)(ii) (concerning the character of gain or loss with respect to a security held by a person other than in connection with its activities as a dealer in securities) does not apply to a security if § 1.475(b)-1(c) and the absence of a determination by the Commissioner prevent section 475(b)(1)(A) from applying to the security.

[T.D. 8700, 61 FR 67725, Dec. 24, 1996]

#### § 1.475(e)-1 Effective dates.

(a)-(b) [Reserved]

(c) Section 1.475(a)-3 (concerning acquisition by a dealer of a security with a substituted basis) applies to securities acquired, originated, or entered into on or after January 4, 1995.

(d) Except as provided elsewhere in this paragraph (d), § 1.475(b)-1 (concerning the scope of exemptions from the mark-to-market requirement) applies to taxable years ending on or after December 31, 1993.

(1) Section 1.475(b)-1(b) applies as follows:

(i) Section 1.475(b)-1(b)(1)(i) (concerning equity interests issued by a related person) applies beginning June 19, 1996. If, on June 18, 1996, a security is subject to mark-to-market accounting and, on June 19, 1996, § 1.475(b)-1(b)(1) begins to apply to the security solely because of the effective dates in this

paragraph (d) (rather than because of a change in facts), then the rules of § 1.475(b)-1(b)(4)(i)(A) (concerning the prohibition against marking) apply, but § 1.475(b)-1(b)(4)(i)(B) (imposing a mark-to-market on the day before the onset of the prohibition) does not apply.

(ii) Section 1.475(b)-1(b)(2) (concerning relevant relationships for purposes of determining whether equity interests in related persons are prohibited from being marked to market) applies beginning June 19, 1996.

(iii) Section 1.475(b)-1(b)(3) (concerning certain actively traded securities) applies beginning June 19, 1996, to securities held on or after that date, except for securities described in § 1.475(b)-1(e)(1)(i) (concerning equity interests issued by controlled entities). If a security is described in § 1.475(b)-1(e)(1)(i), § 1.475(b)-1(b)(3) applies only on or after January 23, 1997 if the security is held on or after that date. If § 1.475(b)-1(b)(1) ceases to apply to a security by virtue of the operation of this paragraph (d)(1)(iii), the rules of § 1.475(b)-1(b)(4)(ii) apply to the cessation.

(iv) Except to the extent provided in paragraph (d)(1) of this section, § 1.475(b)-1(b)(4) (concerning changes in status) applies beginning June 19, 1996.

(2) Section 1.475(b)-1(c) (concerning securities deemed not held for investment by dealers in notional principal contracts and derivatives) applies to securities acquired on or after January 23, 1997.

(3) Section 1.475(b)-1(d) (concerning the special rule for hedges of another member's risk) is effective for securities acquired, originated, or entered into on or after January 23, 1997.

(e) Section 1.475(b)-2 (concerning identification of securities that are exempt from mark-to-market treatment) applies as follows:

(1) Section 1.475(b)-2(a) (concerning the general rules for identification of basis for exemption from mark to market treatment) applies to identifications made on or after July 1, 1997.

(2) Section 1.475(b)-2(b) (concerning time for identifying a security with a substituted basis) applies to securities acquired, originated, or entered into on or after January 4, 1995.